

RIVERSIDE UNIFIED SCHOOL DISTRICT

Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 1998, through June 30, 2001



STEVE WESTLY
California State Controller

October 2004



STEVE WESTLY
California State Controller

October 28, 2004

Susan J. Rainey, Ed.D., Superintendent
Riverside Unified School District
3380 14th Street
Riverside, CA 92501

Dear Dr. Rainey:

The State Controller's Office has completed an audit of the claims filed by the Riverside Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1998, through June 30, 2001.

The district claimed \$1,165,195 for the mandated program. Our audit disclosed that \$189,159 is allowable and \$976,036 is unallowable. The unallowable costs occurred primarily because the district claimed costs that were not supported. The district was paid \$1,055,527. The amount paid in excess of allowable costs claimed totals \$866,369.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's website at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: Herb Calderon, Director of Fiscal Services
Riverside Unified School District
David Long, Ph.D., County Superintendent of Schools
Riverside County Office of Education
Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Arlene Matsuura, Educational Consultant
School Fiscal Services Division
California Department of Education
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
Charles Pillsbury, School Apportionment Specialist
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Riverside Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1998, through June 30, 2001. The last day of fieldwork was December 15, 2003.

The district claimed \$1,165,195 for the mandated program. Our audit disclosed that \$189,159 is allowable and \$976,036 is unallowable. The unallowable costs occurred primarily because the district claimed costs that were not supported. The district was paid \$1,055,528. The amount paid in excess of allowable costs claimed totals \$866,369.

Background

Chapter 161, Statutes of 1993, added *Education Code* Section 35106.5(c), requiring the governing board of each school district, on or before July 1, 1994, to prepare and adopt rules establishing and implementing a policy of open enrollment within the district for residents of the district, which provides that:

- The parent or guardian of each school-age child who is a resident in the district may select the school the child shall attend;
- Once the intradistrict transfer is selected, the transfer is evaluated to ascertain the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
- Intradistrict attendance in excess of school site attendance area capacity shall be determined by a random, unbiased process that prohibits an evaluation of whether any pupil should be enrolled based upon his or her academic or athletic performance; and
- No pupil who currently resides in the attendance area of a school shall be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, amended *Education Code* Section 35106.5(c) to specify that the Intradistrict Attendance Program does not apply to school districts of only one school or school sites serving different grade levels, and that the school district is required to determine the capacity of the schools within the jurisdiction of the district.

On January 19, 1995, the Commission on State Mandates (COSM) ruled that Chapter 781, Statutes of 1992, imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by COSM on May 24, 1995, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement in assisting local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

Our audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 1998, through June 30, 2001.

We performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided for under *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Riverside Unified School District claimed \$1,165,195 for costs of the legislatively mandated Intradistrict Attendance Program. The audit disclosed that \$189,159 is allowable and \$976,036 is unallowable.

For fiscal year (FY) 1998-99, the district was paid \$626,917 by the State. The audit disclosed that \$86,449 is allowable. The amount paid in excess of allowable costs claimed, totaling \$540,468, should be returned to the State.

For FY 1999-2000, the district was paid \$281,370 by the State. The audit disclosed that \$48,004 is allowable. The amount paid in excess of allowable costs claimed, totaling \$233,366, should be returned to the State.

For FY 2000-01, the district was paid \$147,241 by the State. The audit disclosed that \$54,706 is allowable. The amount paid in excess of allowable costs claimed, totaling \$92,535, should be returned to the State.

**Views of
Responsible
Officials**

We issued a draft audit report on April 14, 2004. Michael H. Fine, Deputy Superintendent, responded by letter dated May 14, 2004, disagreeing with the audit results. The district's response is included as an attachment to this final report.

Restricted Use

This report is solely for the information and use of the Riverside Unified School District, the Riverside County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2001

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 1998, through June 30, 1999</u>				
Salaries and benefits	\$ 573,057	\$ 74,239	\$ (498,818)	Finding 1
Materials and supplies	<u>9,959</u>	<u>6,156</u>	<u>(3,803)</u>	Finding 2
Subtotals	583,016	80,395	(502,621)	
Indirect costs	<u>43,901</u>	<u>6,054</u>	<u>(37,847)</u>	Findings 1, 2
Total costs	<u>\$ 626,917</u>	86,449	<u>\$ (540,468)</u>	
Less amount paid by the State		<u>(626,917)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (540,468)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 255,948	\$ 39,766	\$ (216,182)	Finding 1
Materials and supplies	<u>9,520</u>	<u>5,524</u>	<u>(3,996)</u>	Finding 2
Subtotals	265,468	45,290	(220,178)	
Indirect costs	<u>15,902</u>	<u>2,714</u>	<u>(13,188)</u>	Findings 1, 2
Total costs	<u>\$ 281,370</u>	48,004	<u>\$ (233,366)</u>	
Less amount paid by the State		<u>(281,370)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (233,366)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 226,495	\$ 39,605	\$ (186,890)	Finding 1
Materials and supplies	<u>19,421</u>	<u>12,761</u>	<u>(6,660)</u>	Finding 2
Subtotals	245,916	52,366	(193,550)	
Indirect costs	<u>10,992</u>	<u>2,340</u>	<u>(8,652)</u>	
Total costs	<u>\$ 256,908</u>	54,706	<u>\$ (202,202)</u>	
Less amount paid by the State		<u>(147,241)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (92,535)</u>		
<u>Summary: July 1, 1998, through June 30, 2001</u>				
Salaries and benefits	\$1,055,500	\$ 153,610	\$ (901,890)	Finding 1
Services and supplies	<u>38,900</u>	<u>24,441</u>	<u>(14,459)</u>	Finding 2
Subtotals	1,094,400	178,051	(916,349)	
Indirect costs	<u>70,795</u>	<u>11,108</u>	<u>(59,687)</u>	Findings 1, 2
Total costs	<u>\$1,165,195</u>	189,159	<u>\$ (976,036)</u>	
Less amount paid by the State		<u>(1,055,528)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (866,369)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits, and related indirect costs

The district overstated employee salaries and benefits claimed by \$901,890 during the audit period. The related indirect costs total \$58,864. Unsupported costs are as follows:

	Fiscal Year			
	1998-99	1999-2000	2000-01	Total
Salaries and benefits	\$ (498,818)	\$ (216,182)	\$ (186,890)	\$ (901,890)
Related indirect costs	<u>(37,561)</u>	<u>(12,949)</u>	<u>(8,354)</u>	<u>(58,864)</u>
Audit adjustment	<u>\$ (536,379)</u>	<u>\$ (229,131)</u>	<u>\$ (195,244)</u>	<u>\$ (960,754)</u>

A summary of the claimed costs, allowable costs, and audit adjustments by reimbursable activities is as follows:

	Claimed Costs	Allowable Costs	Audit Adjustment
Policy and procedures	\$ 12,902	\$ 12,902	\$ —
Random selection process	776,101	22,380	(753,721)
Schoolsite capacity	<u>266,496</u>	<u>118,327</u>	<u>(148,169)</u>
Totals	<u>\$1,055,499</u>	<u>\$ 153,609</u>	<u>\$ (901,890)</u>

Unsupported salaries and benefits claimed by the district were derived from employee declarations of estimated time spent on mandated activities, ranging from monthly to annual hours. Declaration of estimated time does not constitute adequate documentation in support of claimed salaries and benefits.

Testing of the district's salaries and benefits revealed that the district did not have a consistent manner of recording employee time spent on mandated activities. Review of the documentation submitted for the audit indicated that staff at various school sites throughout the district prepared at least 54 different time declarations. All of the declarations were unsupported because none was traceable to source documents. In some instances, the activities claimed under "random selection process" were for activities outside the scope of the mandate, e.g., time spent to process a transfer into or out of the school.

Parameters and Guidelines states that the district should support employee salaries and benefits by specifying the actual number of hours devoted to each function. The guidelines further state that the average number of hours devoted to each function may be claimed if supported by a documented time study. The district did not provide a documented time study to support claimed costs.

Recommendation

We recommend that the district establish and implement procedures to ensure all claimed costs are supported with source documents.

District's Response

The audit concludes that over \$960,000 of claims were based on unsupported salaries and benefit calculations. The Auditors determine that "estimates and declarations of time do not constitute adequate documentation in support of claimed" costs. The audit report goes on to interpret the Parameters and Guidelines and states that "the average number of hours devoted to each function may be claimed if supported by a documented time study." The audit report acknowledges that the District provided time declarations or time studies. The finding that the time studies provided were not documented is absurd and contrary to the facts.

During the December 15, 2003 exit conference, the State Controller's representative, Jim Venneman, explained that the Controller's Office was "working on defining standards for an acceptable time-study document." Mr. Venneman further stated that, "the definition of standards for a documented time-study would be included in future claiming instructions sent out by the State Controller's Office." The State Controller's Office acknowledged that the actual format, documentation, definition, etc. of a time-study was undefined. How is it possible to hold the District to a standard that is not defined? The District's time studies, declarations and supporting documentation are sufficient and reasonable. The auditor's finding is unsupported and wrong.

SCO's Comment

The fiscal effect of the finding remains unchanged. The unallowable costs resulted from district-submitted declarations of estimated time spent, which are unacceptable source documents.

The finding, as presented in the draft report, has been edited to clarify that unallowable costs occurred because the district provided our auditors with declarations of estimated time rather than time studies for support of claimed costs. Furthermore, the finding has been updated to state that in some instances, the activities claimed under "random selection process" were for activities outside the scope of the mandate.

We are not holding the district to undefined time study standards. The district did not support claimed costs with actual time records or a documented time study.

**FINDING 2—
Unallowable materials
and supplies, and
related indirect costs**

The district overstated materials and supplies by \$14,459 for the audit period. The related indirect costs, based on claimed indirect cost rates, total \$823. Overstated costs are as follows:

	Fiscal Year			Total
	1998-99	1999-2000	2000-01	
Photocopies	\$ (304)	\$ (417)	\$ (693)	\$ (1,414)
Software licensing	(3,499)	(3,579)	(5,967)	(13,045)
Totals	(3,803)	(3,996)	(6,660)	(14,459)
Related indirect costs	(286)	(239)	(298)	(823)
Audit adjustment	<u>\$ (4,089)</u>	<u>\$ (4,235)</u>	<u>\$ (6,958)</u>	<u>\$ (15,282)</u>

A summary of the claimed costs, allowable costs, and audit adjustments by reimbursable activities is as follows:

	Claimed Costs	Allowable Costs	Audit Adjustment
Random selection process	\$ 25,855	\$ 24,441	\$ (1,414)
Schoolsite capacity	13,045	—	(13,045)
Totals	<u>\$ 38,900</u>	<u>\$ 24,441</u>	<u>\$ (14,459)</u>

Unsupported photocopy costs claimed by the district were derived from employee declarations of estimated numbers of photocopies made for mandated activities, ranging from monthly to annual estimates. Declarations of estimated numbers of photocopies made do not constitute adequate documentation in support of claimed materials and supplies. In addition, some of the activities claimed were for activities outside the scope of the mandate, e.g., processing a transfer into or out of the school.

The district claimed software licensing and update costs under schoolsite capacity as direct costs, which do not relate directly to mandated activities. Activities claimed related to route and boundary optimization software.

Parameters and Guidelines states that only expenditures identifiable as a direct cost of this mandate may be claimed and that all costs claimed must be traceable and supported by source documents that show the validity of such costs.

Recommendation

We recommend that the district ensure all claimed costs are properly supported and eligible for reimbursement.

District's Response

The audit concludes that over \$15,300 of claims were unsupported or unallowable material and supply costs. The District will not dispute the insignificant and questionable software license costs of \$13,044 or the \$48 of mileage. However, the District does dispute the disallowance of \$1,415 of photocopying expenses and the related indirect costs. The auditors made a determination that photocopying costs were undocumented because they were "estimated by District employees and could not be verified by any other documentation."

The *Parameters and Guidelines* require that costs must be "traceable and supported by source documents that show the validity of such costs." The employee that made the copies recorded the number of copies made, and this documentation was used in the claim. What is the State Controller's undefined standard for documentation of photocopying costs? The District's documentation for photocopying costs is sufficient and reasonable. The auditor's finding regarding unsupported photocopying costs of \$1,415 is unsupported and wrong.

SCO's Comment

The finding relating to unallowable mileage was deleted. Therefore, the fiscal effect of the finding was reduced by \$51, from \$15,333 to \$15,282. The district did not support that the number of photocopies claimed was based on actual rather than estimated number of photocopies made.

The finding, as presented in the draft report, has been edited to clarify that: (1) photocopy costs claimed were based on estimated number of photocopies made, ranging from monthly to annual estimates; (2) some of the costs claimed were for activities outside the scope of the mandate; and (3) the software licensing and update costs related to route and boundary optimization software.

**Attachment—
District's Response to
Draft Audit Report**

BOARD OF EDUCATION
MRS. GAYLE CLOUD
PRESIDENT
MRS. DANA S. KRUCKENBERG
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CLERK
MR. MICHAEL GOLDWARE
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Riverside Unified School District

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BUSINESS SERVICES & GOVERNMENTAL RELATIONS
(909) 788-7470
FAX: (909) 276-2024

SUSAN J. RAINEY, ED.D.
DISTRICT
SUPERINTENDENT

Via Federal Express Mail

May 14, 2004

Jim L. Spano, Chief, Compliance Audits Bureau
Division of Audits
State Controller's Office
300 Capitol Mall, Suite 518
Sacramento, CA 95814

Reference: Intradistrict Transfers Mandate Reimbursement Claims State Audit
Audit Period: July 1, 1998 – June 30, 2001

Dear Mr. Spano:

We are in receipt of the draft audit report for the above referenced mandate reimbursement claims. The Riverside Unified School District (District) disagrees with the accuracy and conclusions of the subject report.

Finding #1 – Unsupported salaries and benefits. The audit concludes that over \$960,000 of claims were based on unsupported salaries and benefit calculations. The Auditors determined that "estimates and declarations of time do not constitute adequate documentation in support of claimed" costs. The audit report goes on to interpret the Parameters and Guidelines and states that "the average number of hours devoted to each function may be claimed if supported by a documented time study." The audit report acknowledges that the District provided time declarations or time studies. The finding that the time studies provided were not documented is absurd and contrary to the facts.

During the December 15, 2003 exit conference, the State Controller's representative, Jim Venneman, explained that the Controller's Office was "working on defining standards for an acceptable time-study document." Mr. Venneman further stated that, "the definition of standards for a documented time-study would be included in future claiming instructions sent out by the State Controller's Office." The State Controller's Office acknowledged that the actual format, documentation, definition, etc. of a time-study was undefined. How is it possible to hold the District to a standard that is not

Jim L. Spano
May 14, 2004
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Finding #2 – Unsupported materials and supplies. The audit concludes that over \$15,300 of claims were based on unsupported or unallowable material and supply costs. The District will not dispute the insignificant and questionable software license costs of \$13,044, or the \$48 of mileage. However, the District does dispute the disallowance of \$1,415 of photocopying expenses and the related indirect cost. The auditors made a determination that photocopying costs were undocumented because they were "estimated by District employees and could not be verified by any other documentation."

The Parameters and Guidelines require that costs must be "traceable and supported by source documents that show the validity of such costs." The employee that made the copies recorded the number of copies made, and this documentation was used in the claim. What is the State Controller's undefined standard for documentation of photocopying costs? The District's documentation for photocopying cost is sufficient and reasonable. The auditor's finding regarding unsupported photocopying costs of \$1,415 is unsupported and wrong.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael H. Fine".

Michael H. Fine
Deputy Superintendent,
Business Services & Governmental Relations

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>